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SELLING OUT THE FAMILY FARM: A CLASSIC CASE OF GOOD INTENTIONS GONE AWRY

A REPORT

PREPARED FOR THE USE OF THE

SUBCOMMITTEE ON AGRICULTURE AND TRANSPORTATION

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

BY THE

REPUBLICAN STAFF

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LETTER OF TRANSMITTAL

NOVEMBER 17, 1986.

Hon. DAVID R. OBEY,
Chairman, Joint Economic Committee,
Congress of the United States,
Washington, DC.

DEAR MR. CHAIRMAN: I am pleased to transmit the report, "Selling Out the Family Farm: A Classic Case of Good Intentions Gone Awry," prepared by Owen D. Ambur of the Committee's Republican professional staff.

The report analyzes the distribution of Federal aid benefits among farm operators and concludes the windfall to the larger operators has accelerated the loss of average-size and smaller farms. In other words, despite all the rhetoric to the contrary, the farm program has actually contributed to the demise of what is commonly called the family farming system. Moreover, various production-based proposals to provide additional aid will further accelerate the concentration of the industry in the hands of fewer, larger operators.

Some of the highlights of tabulations of data supplied by the U.S. Department of Agriculture include:

The magnitude of the "farm buy-out potential" of production-based subsidies to larger farms;

The diversity of farm operators in terms of nonfarm income, farm sales levels, debt and need for aid;

The potential to save Federal tax dollars, while *increasing* aid to struggling farmers, through targeting of program benefits.

While the conclusions are strictly those of the author and should not be attributed to any member of the committee, the implications deserve careful consideration if policymakers are serious about helping the *people* involved in agriculture. The author argues production-based approaches contain a fatal flaw and are doomed to continued failure in meeting the needs of the majority of America's farm families. As evidenced by the words of others quoted in the report, he is not alone in that view.

Sincerely,

JAMES ABDNOR, *Chairman,*
Subcommittee on Agriculture and Transportation.

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SELLING OUT THE FAMILY FARM: A CLASSIC CASE OF GOOD INTENTIONS GONE AWRY

(By Owen D. Ambur*)

Despite the continuing financial plight of many farmers, it is not as if the federal government has failed to try to provide relief, but massive amounts of aid have been misdirected. By focusing on production, rather than on people, government aid has accelerated the loss of average-size and smaller farms by bankrolling their takeover by large, profitable operators.

Any "broadside" approach—such as high loan rates or production controls—will aggravate the problem and hasten the loss of farms.

If the goal is to preserve the family farm system by maximizing the number of people able to sustain a living in the industry, assistance must be better targeted to those in need of aid. Both nonfarm income and farm sales levels should be taken into account.

GOVERNMENT FARM AID

According to data from the U.S. Department of Agriculture, federal price support aid to the farm sector for the years 1980 through 1984 totaled nearly $45 billion, an average of about $9 billion annually (Table I). Of the total, 54.5 percent was in the form of direct payments and 45.5 percent was comprised of less direct forms of taxpayer-financed aid (including net Commodity Credit Corporation loans and dairy price supports).

These amounts do not include any consumer-paid benefits to farm operators resulting from any increases in prices due to governmental efforts to control production (such as set-asides, quotas and marketing orders), nor do they include any benefits resulting from the ability of operators to write off farm losses against income from other sources for tax purposes. While neither item appears as an expenditure in the federal budget, both have a very real effect on the financial welfare of farm operators, an effect which may equal or exceed that of federal farm aid spending.

TABLE I.—FEDERAL FARM AID EXPENDITURES, 1980–84

[In billions of dollars]

Year	Indirect aid	Direct payments	Total aid
1980	$2.0	$1.3	$3.3
1981	4.2	1.9	6.1
1982	11.6	3.5	15.1
1983	1.9	9.3	11.2

* Economist, Republican staff, Joint Economic Committee.

TABLE I.—FEDERAL FARM AID EXPENDITURES, 1980–84—Continued

[In billions of dollars]

Year	Indirect aid	Direct payments	Total aid
1984	0.7	8.4	9.2
Total	20.4	24.4	44.8
Average	4.1	4.9	9.0

Indeed, in its report (S. Prt. 98–238, p. VIII) on the distribution of federal crop program benefits for 1982, the Senate Budget Committee observed:

> A comparison of total direct and indirect benefits reveals that indirect benefits exceeded direct benefits by more than 400 percent.

If indirect benefits to participating producers exceeded direct benefits to such an extent, total indirect benefits to all operators would exceed total direct benefits to a still greater degree. By definition, nonparticipants receive no direct program benefits, but they benefit indirectly just as much as participating producers do, in proportion to their level of production.

Assessing the full impact of federal policy upon the industry would require consideration of tax benefits to well-to-do investors as well as indirect farm program benefits to noncooperating domestic producers and to foreign competitors. Nevertheless, both in total and on an average per operator basis, federal farm aid expenditures alone have been impressive. Since only about half of the nation's 2.4 million farm operators have regularly participated in the farm commodity price support programs, the average transfer from taxpayers has been on the order of $7,500 per farm aid recipient per year during the first half of the eighties.

Comparatively speaking, that is more than double the average amount of assistance received by about 22 million beneficiaries under six major federal needs-based welfare programs—AFDC, Supplemental Security Income, Medicaid, subsidized housing, food stamps, and veterans non-service-connected pensions—which totaled about $67 billion in FY86. Compared to federal aid to nonfarm enterprises, approximately 350,000 businesses are assisted annually under the Small Business Administration's regular loan program, at a total cost to the taxpayers of about $390 million in 1984 or an average of just over $1,100 per recipient.

Yet another comparison which might be drawn is the relative cost of the farm program to support a job. The Commerce Department's Economic Development Administration—a repeated target for termination by the Reagan Administration due to its alleged lack of cost-effectiveness—provides matching funds for local jobs projects. The average amount provided by EDA to support a job ranges from $5,000 to $6,000. Any project costing more than $10,000 per job will be scrutinized very carefully, if considered at all. These are one-time capital expenditures, and each project is expected to support itself following the initial federal cost sharing. The nominal limit on direct federal farm aid payments is 5 times

as great—and that's $50,000 every year, not just on a one-time basis! Moreover, due to various loopholes and exclusions, even this comparatively high limit is a sham under current law.

Obviously, by these relative measures, the amount of federal aid to the farm sector, and particularly to individual operators, is considerable. Nevertheless, a recent public opinion poll by CBS News indicated that most taxpayers would be willing to pay still more to aid farmers if it would do any real good, and funding for price support activities in the second half of the eighties may double or triple the amount of the first half.

Accordingly, how federal direct and indirect aid is spent appears to be equally important as how much is spent.

Farm Sector Diversity

Regardless of the amount of taxpayer funding and consumer spending devoted to farm aid, it is important to recognize that agriculture is made up of a very diverse group of operators. A responsible assessment of any governmental effort to aid the industry must consider how both the benefits of the program and the needs of the operators are distributed. In a paper entitled "Profile of the U.S. Farm Sector," David Harrington and Alden Manchester note, ". . . the farm sector has grown so diverse that a single farm policy may be insufficient to address those needs" (page 25, *Agricultural-Food Policy Review: Commodity Program Perspectives*).

One indication of the diversity of the industry is the wide range of annual sales by farm operators and the numbers of operators in each of nine sales categories based upon 1984 commodity sales volumes, ranging from less than $2,500 to over $500,000, per farm (Table II).

Over 85 percent of all farm operators sold less than $100,000 worth of farm commodities in 1984, but many of them do not rely upon farming as their principle means of livelihood. Indeed, nearly 60 percent of the income of all farm operators came from nonfarm sources in 1984 (Table IV). Presumably, those with higher off-farm incomes have less need for farm income support to sustain their livelihood. On the other hand, those with higher farm sales might be expected to be able to earn sufficient returns to sustain their farming operations and, therefore, have less need for government aid as well.

TABLE II.—NUMBER AND PERCENTAGE OF FARMS BY SALES CLASS, 1984

Sales class	Farms (thousands)	Percent
Over $500,000	31	1.3
$250,000 to $499,999	77	3.3
$100,000 to $249,999	229	9.8
$40,000 to $99,999	353	15.2
$20,000 to $39,999	247	10.6
$10,000 to $19,999	269	11.6
$5,000 to $9,999	314	13.5
$2,500 to $4,999	275	11.8
Under $2,500	533	22.9
Total	2,328	100.0

TABLE II.—NUMBER AND PERCENTAGE OF FARMS BY SALES CLASS, 1984—Continued

Sales class	Farms (thousands)	Percent
Under $100,000	1,991	85.5

Such is the conclusion of the Office of Technology Assessment in the March 1986 summary of its study, *Technology, Public Policy, and the Changing Structure of American Agriculture:*

> . . . large-scale farmers do not need direct Government payments and/or subsidies to compete and survive . . ." (page 33), and
>
> . . . small farmers who have substantial outside income or who have found a niche in the market . . . are as much able to take care of themselves as owners of large farms" (page 37).

Data on net farm income and total income per operator demonstrate that, on average, the larger farms are quite profitable (Table III). For the highest sales class, net income per operator averaged over $400,000 in 1984, on total revenues exceeding $1.5 million.

TABLE III.—NET FARM INCOME AND TOTAL INCOME PER OPERATOR BY SALES CLASS, 1984

[In thousands of dollars]

Sales class	Net farm income	Total income
Over $500,000	$426.3	$1,573.3
$250,000 to $499,999	81.8	375.0
$100,000 to $249,999	31.9	181.7
$40,000 to $99,999	6.1	85.3
$20,000 to $39,999	0.4	56.7
$10,000 to $19,999	1.5	38.0
$5,000 to $9,999	1.5	32.8
$2,500 to $4,999	2.2	27.9
Under $2,500	1.6	27.5
All classes	11.5	88.6

Moreover, in a paper entitled "The Implications of Emerging Technologies for Farm Programs" published in USDA's *Agricultural-Food Policy Review: Commodity Program Perspectives* (page 69), Lloyd Teigen et al. concluded:

> The margin between price and variable costs for most commodities provides adequate return to the producers of the median unit of output (generally those with sales greater than $100,000), but leaves the median producer of that commodity (generally having sales of less than $30,000) with limited net income. Price enhancement policies and deficiency payments have little effect on the incomes of the smallest producers and convey the largest benefits to the largest producers.

In other words, even without government aid most of the nation's agricultural output is profitable; however, most of the producers are not making enough income from the farm to support

their families. Since it is largely based upon output, the farm program is poorly designed to aid operators who need assistance.

While the smallest farms are unprofitable, farming appears to be a sideline business or a hobby for these operators. Nonfarm income constitutes over 100 percent of the net total income of the operators of farms with sales less than $20,000 and nearly 100 percent of the net of those with sales ranging from $20,000 to $40,000 (Table IV).

TABLE IV.—NONFARM INCOME AND PERCENT OF TOTAL NET INCOME PER OPERATOR BY SALES CLASS, 1984

[Dollar amounts in thousands]

Sales class	Nonfarm income	Percent of total net
Over $500,000	$14.5	3
$250,000 to $499,999	11.5	12
$100,000 to $249,999	10.7	25
$40,000 to $99,999	9.7	62
$20,000 to $39,999	21.1	98
$10,000 to $19,999	17.7	109
$5,000 to $9,999	20.1	108
$2,500 to $4,999	19.4	113
Under $2,500	20.9	109
All classes	17.2	60

On the other extreme, nonfarm sources accounted for a mere 3 percent of the average net income of the largest farm operators, only 12 percent of the net income of those with sales between $250,000 and $500,000, and a quarter of the net of those with farm sales between $100,000 and $250,000. For operators of farms with sales between $20,000 and $100,000, both farm and nonfarm income sources are important means of livelihood.

Not only is 60 percent of the aggregate net income of farm operators earned from nonfarm sources, a still higher percentage of the individual operators receive the bulk of their net income off the farm. In that sense many operators are part-time farmers, for whom farming is not the primary means of livelihood. Yet, government farm aid is disbursed without regard either to the degree to which the operator is dependent upon farming for his livelihood nor the degree to which he may be wealthy in terms of earnings from other sources.

USDA's Farm Costs and Returns Survey provides information from which it is possible to cross-tabulate the percentage of farm operators falling into various nonfarm income and farm sales categories. While the survey is based upon inadequate samples in some categories, is not completely reliable in every instance, and in particular tends to undercount small farms, the data provides some information which is very pertinent to farm aid policy. Table V has been statistically adjusted to offset the undercounting of small farms in the Survey, so that the proper proportions are maintained in each farm sales class with reference to the data contained in USDA's Economic Indicators. What does this tabulation show?

TABLE V.—PERCENT OF ALL FARM OPERATORS BY NONFARM INCOME/FARM SALES CELL

[In percent]

Sales class	Nonfarm income						All classes
	Under $1,000	$1,000 to $5,000	$5,000 to $10,000	$10,000 to $15,000	$15,000 to $20,000	Over $20,000	
Over $250,000	2.8	0.7	0.3	0.3	0.2	0.3	4.6
$100,000 to $249,999	5.0	1.6	.9	.6	.5	1.3	9.9
$40,000 to $99,999	6.9	2.5	1.8	1.1	.8	2.1	15.2
$20,000 to $39,999	3.7	1.5	1.3	1.1	.7	2.3	10.6
$10,000 to $19,999	3.2	1.1	1.3	1.1	.9	3.9	11.6
$5,000 to $9,999	2.6	1.0	1.8	1.4	1.5	5.2	13.5
Under $5,000	5.8	2.7	4.0	4.1	3.8	14.4	34.7
All classes	30.0	11.1	11.4	9.6	8.3	29.6	100.0

First, by this analysis, the largest percentage (14.4 percent) of operators have nonfarm incomes in excess of $20,000 and farm sales under $5,000. An additional relatively high percentage (5.2 percent) also make over $20,000 off the farm and sell between $5,000 and $10,000 worth of farm commodities. Whether these operators, some 20 percent of all operators, are in need and deserving of taxpayer-financed aid is a very legitimate question. Nevertheless, it should be recognized that they do not account for a substantial proportion of the cost of the current production-based program, because they do not account for a large proportion of the production.

Second, despite the fact previously cited that 60 percent of the net income of farm operators comes from nonfarm sources, most farmers do not make much off the farm. In fact:

30 percent of all farm operators have nonfarm incomes under $1,000;

41 percent earn less than $5,000 off the farm, and over half of all farmers make less than $10,000 in nonfarm income.

Given these facts and the large proportion of the income of other operators earned off the farm, it seems inconceivable that a cost-effective program to aid farmers could ignore other sources of income!

Third, excluding those with nonfarm income over $20,000, the largest percentage of farmers (6.9 percent) fall into the category of $40,000 to $100,000 in farm sales and less than $1,000 in nonfarm income. With little opportunity for outside income, these are full-time farmers who are aided relatively little by the current programs, yet toward whom the primary benefits of any farm aid program might be directed if the politicians' rhetoric about saving the family farm system is to be believed.

Fourth, those who made less than $1,000 off the farm and sold $100,000 to $250,000 worth of farm commodities also comprise a significant proportion (5 percent) of all farm operators. While they are lacking in other income opportunities and are full-time farmers, it should be noted that, as a class, they generally earn adequate income without taxpayer-financed aid.

Fifth, the next largest percentage (5.8 percent) of all farm operators make less than $1,000 off the farm and sell under $5,000 worth of farm commodities. These operators are primarily needy in terms of inadequate income rather than stress in the farm economy. On

the other hand, there is no apparent reason to deny them farm program benefits since they account for little of the nation's production and but a small share of the overall cost of the program. For these operators, farm program benefits might be considered a relatively cheap form of "workfare," since the alternatives are still worse poverty or more expensive welfare dependency.

Sixth and finally, as many as a third of the operators have nonfarm incomes exceeding $20,000 or farm sales exceeding $250,000—levels at which operators might be considered to be able to take care of themselves and not to need taxpayer-financed assistance. If those with farm sales over $100,000 are included, that figure rises to 42 percent of all farm operators who may not need or deserve taxpayer-financed aid on any basis of inadequate income. These operators account for nearly three-fourths of all agricultural production. (See Table III and recall the assertion of Tiegen et al. that those with sales in excess of $100,000 generally have adequate marketplace returns.)

Distribution of Benefits

The farm program has been called "welfare for the rich," governed by a perverse, "reverse means test," under which the wealthiest get the most aid. Justification for that point of view is exhibited in figures on the average "unsubsidized" total net income (including nonfarm income but excluding government payments) and the average level of direct government payments per operator (Table VI).

TABLE VI.—UNSUBSIDIZED TOTAL NET INCOME, DIRECT GOVERNMENT PAYMENTS AND PERCENT OF TOTAL NET INCOME PER OPERATOR BY SALES CLASS, 1984

[Dollar amounts in thousands]

Sales class	Unsubsidized net income	Government payments	Percent of total net
Over $500,000	$407.1	$33.68	7.6
$250,000 to $493,999	72.8	20.56	22.0
$100,000 to $249,999	29.6	13.03	30.5
$40,000 to $99,999	10.5	5.31	33.6
$20,000 to $39,999	19.3	2.20	10.2
$10,000 to $19,999	15.4	.87	5.3
$5,000 to $9,999	18.3	.34	1.8
$2,500 to $4,999	17.1	.12	0.7
Under $2,500	19.2	.06	0.3
All operators	25.0	3.62	12.6

The most alarming fact is that the category with the highest average "unsubsidized" net income (exceeding $400,000 annually) also receives the highest payments (nearly $34,000 annually) from the government! Nevertheless, government payments account for less than 8 percent of the net income of this group. For those with farm sales ranging from $40,000 to $250,000, however, the smaller payments received constitute a much higher proportion—about one-third—of net income.

The contrast between the amount of assistance given to large farms versus small farms is even more dramatic when both direct

and indirect government farm aid expenditures over a period of years are considered. For the purpose of this tabulation, indirect aid expenditures include "nonrecourse" commodity loans, which need not be paid back when the market price is below the loan level, and purchases of surplus dairy products. Unlike direct assistance payments, there is no "cap" or maximum amount any producer may receive under these programs, and the benefits are basically distributed in direct proportion to sales or production.

Two striking points arise from analysis of direct and indirect government aid in the five-year period 1980 through 1984 (Table VII):

First, on average, an operator in the highest sales class received about 12½ times as much money from the taxpayers as an operator in the $40,000 to $100,000 category ($337,900 versus $26,700)!

TABLE VII.—DIRECT AND INDIRECT GOVERNMENT AID PER FARM OPERATOR BY SALES CLASS, 1980–84

[In thousands of dollars]

Sales class	Indirect	Direct	Total
Over $500,000	$226.9	$110.9	$337.9
$250,000 to $499,999	49.2	57.6	106.8
$100,000 to $249,999	22.5	38.7	61.2
$40,000 to $99,999	10.0	16.7	26.7
$20,000 to $39,999	4.5	6.8	11.3
$10,000 to $19,999	2.3	2.9	5.2
$5,000 to $9,999	1.2	1.4	2.6
$2,500 to $4,999	0.6	0.6	1.2
Under $2,500	0.2	0.4	0.6
Average	8.5	10.2	18.7

Second, while direct assistance payments equaled or exceeded indirect aid in 8 of the 9 sales classes, in the highest sales category indirect aid was doubled the amount of direct payments.

Thus, it is evident these indirect, "hidden" and "uncapped" subsidies—dairy price supports and nonrecourse commodity loans—have particularly aggravated the maldistribution of government farm aid and, thereby, net income among farm operators.

The malapportionment of taxpayer-financed income transfers to the larger farm operators is understated to the degree it is based upon averages for all farms. Since many operators are not eligible or choose not to participate in the program, the actual average benefit to those who do participate may be as much as twice the amount indicated, and the absolute disparity between large and small farms may be aggravated still further.

Moreover, the benefits of any commodity price enhancements resulting from government-induced production cutbacks are also distributed disproportionately to the larger operators, aggravating the income disparity even more. Such consumer-financed transfers of wealth to farm operators are not considered in this tabulation, but it should be noted that price supports and production controls have been mainstays of the farm program, despite the inequitable distribution of benefits they generate.

Based upon government aid expenditures alone, comparison of the distribution of farms (Table II) versus the distribution of aid for the period 1980–84 (Table XXIX) reveals that less than 15 percent of the farms received nearly two-thirds of all taxpayer-funded assistance during the first half of the decade.

Finally, with respect to the current farm program, Table VIII estimates the average 1986 deficiency payment to producers of wheat and corn by sales class.

These estimates assume wheat and corn sales levels equal to 1984 overall (all commodities) average sales levels per class, along with 1986 payment rates of $1.98 for wheat and $1.11 for corn, respectively. These payment rates represent the difference between the target prices and loan rates provided in the 1985 Farm Act. To the extent operators produce nonprogram crops, the subsidies are overstated. On the other hand, to the degree of market prices fall below the loan levels, the subsidy is understated. Reasonable estimates of subsidies to those with the indicated levels of sales of program crops are reflected, however, and this tabulation is a useful measure of "fairness" of the program on a per capita basis among producers of program crops.

TABLE VIII.—ESTIMATED AVERAGE DEFICIENCY PAYMENTS FOR WHEAT AND CORN SALES CLASSES, 1986

Sales class	Wheat	Corn
Over $500,000	$249,354	$277,357
$250,000 to $499,999	95,557	101,956
$100,000 to $249,999	69,514	55,555
$40,000 to $99,999	29,678	23,718
$20,000 to $39,999	13,169	10,524
$10,000 to $19,999	6,697	5,352
$5,000 to $9,999	3,522	2,814
$2,500 to $4,999	1,695	1,354
Under $2,500	590	471
All classes	28,052	22,419

For the larger operators the $50,000 payment limit comes into play for part of the payment; but under the terms of the act, the portion of the payment attributed to lowering of the loan rates is exempt. Thus, while the increased deficiency payments have been reported in the public press as increased subsidies to large farms, more accurately, the effect is to make direct and overt the portion of the subsidy which was previously indirect and hidden in CCC loan forfeiture losses and in artificially inflated market prices.

Specifically, for example, $0.63 of the $1.11 corn deficiency payment—or about 57%—will be subject to the limit for operators with sales over $240,000. For wheat, $1.38 of the $1.98 payment—or about 70%—will be subject to the limit for operators with sales over $159,000. There are ways even these limits may be circumvented, however, so the average payments to the larger operators may be understated.

To get some idea of the magnitude of public subsidies which may be provided to farm operators in the second half of the eighties, it is instructive to note that continuation of the levels of 1986 would

afford average payments in excess of $100,000 to all operators over a period of four or five years. Average payments to the largest operators would exceed $1,000,000 within the same period, and some of the largest of the large will receive that amount in one year!

Unlike the hidden subsidies of the past, these will be paid in cold, hard cash, direct from the pockets of the taxpayers via the Treasury. Regardless of whether the subsidies are overt and funded by the taxpayers or are indirect and financed by consumers, however, the impact upon the structure of the industry will be the same, depending upon the distribution of aid among farm operators. Moreover, the cost of indirect subsidies to the Nation as a whole likely will be greater, and the cost definitely will be greater to those least able to afford the expense—low-income consumers.

In that sense, making the subsidies overt is desirable because it facilitates the ability of policymakers to access the results of farm aid policies—both in terms of who benefits and who pays.

Distribution of Needs

For those farm operators who are unable to generate a profit from farming operations, both nonfarm income and government aid resources may be used to supplement sales receipts. The average total of such resources available to operators in each sales class can be calculated and, along with the ratio of nonfarm income and government aid per operator, may serve as an index of the relative dependence of farm operators upon government and upon nonfarm enterprises as means of support (Table IX).

TABLE IX.—RATIO OF NONFARM INCOME TO GOVERNMENT PAYMENTS AND COMBINED TOTAL PER OPERATOR BY SALES CLASS, 1984

Sales class	Ratio	Combined total (thousands)
	Nonfarm: Government	
Over $500,000	0.4:1	$55.1
$250,000 to $499,999	.5:1	33.7
$100,000 to $249,999	.8:1	24.4
$40,000 to $99,999	1.7:1	15.4
$20,000 to $39,999	8.9:1	23.5
$10,000 to $19,999	18.7:1	18.7
$5,000 to $9,999	53.2:1	20.5
$2,500 to $4,999	140.7:1	19.6
Under $2,500	327.6:1	21.0
Total	4.4:1	21.1

Those with the smallest amount of nonfarm and government payment resources to help sustain their farming operations are those with farm sales ranging from $40,000 to $100,000. While the lower sales categories receive less in government payments, the deficit is more than offset by higher nonfarm incomes, ranging from 9 times to several hundred times as great on average as the government payments to these groups.

With respect to the $40,000 to $100,000 sales class, nonfarm income was nearly twice as important as government payments,

and even for the $100,000 to $250,000 category, nonfarm income is nearly as important as government payments.

Contrary to any implication that the importance of government aid to these groups should be minimized, however, it may be argued that their heavy reliance on nonfarm income results in part from the maldistribution of available aid resources to the larger operators. Moreover, nearly half of the operators in the $40,000 to $250,000 sales classes earned less then $1,000 off the farm. (See Table V.) More equitable distribution of government aid resources could significantly improve the net farm income of those "full-time" farmers and, consequently, unmask the proportional dependence of these sales classes upon nonfarm income, owing to the relatively few operators with disproportionately large nonfarm incomes.

In addition to gross and net income resources available to farm operators (see Tables III and IV), another measure of need for government assistance which might be considered is the debt-to-asset ratio. Such information is presented in USDA's *Financial Characteristics of U.S. Farms, January 1985,* and may be compiled to display the number of farms in each sales category with low versus high debt-to-asset ratios, as well as the ratio of low-debt to high-debt farms (Table X).

Among all sales classes, there are 11 farms with low debt for every one with high debt. If all farms in sales categories with negative net farm income (those with sales below $20,000) are excluded on the assumption they are not true farms, there are still more than 6 low-debt farms for every high-debt farm among the remainder of all "commercial" operations.

That is not to minimize the financial difficulties faced by many operators, large and small. Quite the contrary, it is to suggest that simply throwing money at the problem in an unfocused attempt to aid the industry as a whole is at best unnecessary and, at worst, counterproductive. It is obviously an inefficient and costly means of aiding those in real distress, and to the extent funds are spent on those who are not in need, they are denied to those who are.

TABLE X.—NUMBER AND RATIO OF LOW-DEBT VERSUS HIGH-DEBT FARMS

Sales class	Number of farms		Ratio
	Under 40 percent Debt (thousands)	Over 70 percent Debt (thousands)	
Over $500,000	19.5	4.4	4.4:1
$250,000 to $499,999	42.3	10.1	4.2:1
$100,000 to $249,999	153.9	28.0	5.5:1
$40,000 to $99,999	222.1	32.5	6.8:1
$20,000 to $39,999	161.4	16.3	9.9:1
$10,000 to $19,999	165.1	12.4	13.3:1
Under $10,000	588.8	18.3	32.3:1
All classes	1,353.1	122.0	11.1:1
over $20,000	599.2	91.4	6.6:1

Even among those in financial difficulty due to high debt, there is the question of how best to do the most good for the greatest number. While the larger operators might be considered more

"needy" by virtue of higher debt service requirements, it is possible to subsidize the interest payments of 10 to 15 average operations for the same amount of the taxpayers' money as one large farm (Table XI).

Triage, the policy of setting priorities for the treatment of the wounded in war on disaster, is applicable to the farm debt situation. Under triage, both those for whom survival is hopeless as well as those "walking wounded," for whom death is not an immediate threat, are given lower priority for treatment than those who will die without aid, yet whose chances for survival are good with treatment. Thereby, the number of survivors is maximized.

TABLE XI.—INTEREST PAID ANNUALLY BY OPERATORS WITH DEBT EXCEEDING 70 PERCENT

Sales class	Interest (thousands)
Over $500,000	$154.3
$250,000 to $499,999	52.4
$100,000 to $249,999	33.7
$40,000 to $99,999	16.0
$20,000 to $39,999	10.2
$10,000 to $19,999	9.1
Under $10,000	6.2
Average	25.2

In a very real sense, many farmers are suffering economic disaster and all of America's farmers are engaged in economic warfare, not just against foreign aggressors but against each other as well. As cold and unfeeling as it may seem, government farm aid must be based upon a policy of triage. To do otherwise, when aid resources are limited by economic and budgetary realities, is to condem to death more family farming operations than necessary if those resources were more wisely allocated.

In tending to the wounded, all lives are equal and, for the good of all, favoritism toward one victim through extraordinary effort is not permissible. So, too, it is and must be with the farm program, for which there is even a more compelling reason than simply minimizing the number who will die for lack of adequate care. In disaster or war, saving one human life does not measurably affect the chance of survivial of others. However, in the "civil war" which is the domestic agricultural marketplace, disproportionate aid to the larger operators can only harm the average-size and smaller operators in the long run. It is tantamount to federal euthanasia for those farms individually and to genocide for the class of farmers who are neither large nor have significant off-farm income resources.

The pertinent question in the practice of family farm triage is twofold. It is not enough simply to ask the relative prospects for survival of an individual farming operation, without regard to its size, although that is vital. It is also necessary to ask at what cost a farm or class of farms is being subsidized—both in terms of taxpayer-financed assistance and in terms of reduced opportunity for the survival of more and therefore, by definition, smaller operations.

Unfortunately, "fairness" has been defined in terms of units of production, not what is fair and beneficial to the people involved. Under this logic it is "fair" to give some operators hundreds of thousands or even millions of dollars, while giving others only a few hundred dollars, because each is being given an equivalent amount per unit of production. As the principles of economics would lead us to expect, such policies have fostered an overabundance of production and a dwindling supply of producers.

In addition to the ratio of farms in financial difficulty, a further useful measure of the scope of the problem is the value of assets under stress (Table XII).

About 6 percent of all farm assets are under high stress (with debt exceeding 70 percent), ranging from 10 percent in the highest sales category to 2 percent in the lowest. From the opposite perspective, 80 percent of all farm assets are owned by operators with low debt, with the balance of farm assets covered by debt in the range of 40 to 70 percent. Thus, from this perspective as well, a targeted approach to any assistance effort is clearly indicated.

TABLE XII.—VALUE OF ASSETS OWNED BY OPERATORS WITH HIGH DEBT-TO-ASSET RATIOS OVER 70 PERCENT AND PERCENTAGE PER CLASS

Sales class	Value of assets (billions)	Percent of class
Over $500,000	$6.6	10
$250,000 to $499,999	5.8	9
$100,000 to $249,999	10.1	8
$40,000 to $99,999	6.4	6
20,000 to $39,999	2.0	4
$10,000 to $19,999	1.5	4
Under $10,000	1.4	2
All classes	33.8	6

Aid Versus Need

USDA's landmark study, *A Time to Choose: Summary Report on the Structure of Agriculture* (p. 60), commissioned by former Secretary Bergland, highlights the essential dilemma of any untargeted, production-based price support approach to farm aid:

> To whatever extent the average cost and the resulting (support) price exceed the cost of the low-cost producers . . . , (it) provides what is usually referred to as a windfall gain. . . . At the same time, to the extent that high-cost producers . . . have expenses exceeding the average . . . , the programs provide insufficient benefits to them . . . .

While government payments are made without regard to the degree of financial stress being experienced by individual farm operators, it is instructive to draw a comparison between the two. Table XIII contains debt figures compiled from USDA's *Financial Characteristics of U.S. Farms, January 1985* and farm aid data from USDA's *Economic Indicators of the Farm Sector, National Fi-*

nancial Summary, 1984. Two observations put the aid-versus-stress issue into perspective:

Government farm payments in 1984 alone were sufficient, had they been so used, to buy more then three-fourths of the assets owned by insolvent operators.

TABLE XIII.—INSOLVENT ASSETS VERSUS 1984 GOVERNMENT PAYMENTS, BY SALES CLASS

[In billions of dollars]

Sales class	Government payments	Insolvent assets
Over $500,000	$1.0	$2.8
$250,000 to $499,999	1.6	1.6
$100,000 to $249,999	3.0	2.6
$40,000 to $99,999	1.9	2.0
$20,000 to $39,999	.5	.8
$10,000 to $19,999	.2	.5
Under $10,000	.2	.4
All classes	8.4	10.8
Over $100,000	5.6	7.0
Under $100,000	2.8	3.8

Moreover, government payments to those with sales in excess of $100,000—two-thirds of whom are not in high debt circumstances and have net incomes averaging around $50,000 or more—totaled more than enough to buy out all of the assets owned by insolvent operators with smaller farms.

These observations are based upon direct aid payments only. Considering that, in the first half of the eighties at least, indirect forms of aid have been twice as important to the largest operators as direct payments have been, the actual impact of government aid upon their ability to buy out the smaller, failing operations has been even greater than indicated.

This is not to say that is what necessarily has happened or will happen, but it is most curious that a program ostensibly designed to help preserve the family farm system creates the potential and may in actuality be serving so perniciously to speed the demise of the smaller operators and, with them, the communities they support.

Little wonder, then, at the observations of Messrs. Learn, Martin and McCalla in their article, "American farm subsidies: a bumper crop," published in the summer 1986 edition of *The Public Interest:*

. . . federal farm programs, developed in the 1930s to assist family farms, today bestow most of their benefits on large farms.

Although preservation of the "family farm" system has been the favorite catch-phrase of politicians and farm policy spokesmen for more than half a century, *present policies do not preserve family farms.* (Italics added.)

Price support programs do not forestall further movement away from the traditional family farm, and *may actually hasten it.* (Italics added.)

If the distribution of all taxpayer-financed aid, direct and indirect, is considered over a period of years, the results are startling indeed (Table XIV).

A comparison of the total amount of federal farm aid to each sales class for the 5-year period, 1980 through 1984, to the assets owned by those with moderate to high debt (ranging from 40 percent to over 100 percent) reveals ominous implications for the family farm system: In the period of the eighties alone, government has subsidized farms with sales over $100,000 by an amount ($29 billion) exceeding the total value of assets ($27 billion) owned by operators with moderate to high debt and sales from $20,000 to $100,000!

Since the majority of the larger farms have significant, positive cash-flows after all expenses and an allowance for family living expenses, it is more than likely that at least a portion of the government largess is going to buy out the assets not only of smaller operators who are insolvent, but also those with moderate debt who are nearing retirement or choose to get out of farming before losing the balance of their equity. What else might the larger, lower cost operators be expected to do with their "windfall gain"?

TABLE XIV.—TOTAL FARM AID, 1980–84, VERSUS ASSETS OWNED BY OPERATORS WITH MODERATE TO HIGH DEBT

[In billions of dollars]

Sales class	Total aid	Assets with debt over 40 percent
Over $500,000	$9.2	$18.8
$250,000 to $499,999	8.1	19.2
$100,000 to $249,999	12.1	34.5
$40,000 to $99,999	9.5	20.9
$20,000 to $39,999	3.0	6.3
$10,000 to $19,999	1.5	3.9
Under $10,000	1.5	4.9
All classes	44.8	108.5
Over $100,000	29.4	72.6
$20,000 to $99,999	12.5	27.2

Moreover, since this analysis excludes the effect of any price increases resulting from production controls as well as the effect of any tax benefits to wealthy investors in farming, the total impact of government policies on the potential loss of full-time family farming units is probably understated. The direction, if not the magnitude of the results are predictable, however, and they are consistent with observable reality. The double-whammy of wealthy outside investors on one side and wealthy farmers on the other, both aided in disproportionate measure by Uncle Sam, is simply too much for the class of average-size farmers to withstand.

No direct, empirical evidence is presented here to prove that large operators are using public subsidies to purchase smaller farms, but data on the rapidly increasing number of large farms and decreasing number of small farms is more than ample evidence of the problem. (See Table XV.) Taken together with income statistics (see Tables III and VI), this data constitutes powerful cir-

cumstantial evidence that government subsidies to farms with no need for aid can only serve to accelerate the loss of smaller farms and, with them, rural population.

Distribution of Farms and Income

Regardless of the cause, it is a fact of rural life that a great many farms have been lost and, with their loss, the viability of rural communities has declined. Overall, the number of farms has decreased by 22 percent since 1969, when USDA began keeping statistics under the current sales categories (Table XV).

TABLE XV.—CHANGE IN NUMBER OF FARMS BY SALES CLASS, 1969 VERSUS 1984

Sales class	Change (percent)
Over $500,000	675
$250,000 to $499,999	600
$100,000 to $249,999	616
$40,000 to $99,999	128
$20,000 to $39,999	−19
$10,000 to $19,999	−27
$5,000 to $9,999	−18
$2,500 to $4,999	−25
Under $2,500	−61
All farms	−22
Over $100,000	617
Under $100,000	−33

The contrast between the loss of small farms and the increase in large farms is stark. Tremendous aggregation of the industry into fewer and fewer hands has occurred. The number of large farms has increased over 600 percent, while the number of smaller farms has decreased by a third. It may be argued that adjustment of the sales classes to account for inflation would diminish to some extent the real growth of the larger farms, and the relative loss of smaller farms. Nevertheless, by definition, any numerical increase in large farms means a geometric decrease in the potential number of smaller farms.

Moreover, accounting for the growth of larger farms on the basis of inflation highlights a corollary: Any policy—such as high loan rates and production controls—which tends to stimulate inflation will also tend to stimulate the loss of farms. If it is true that inflation means farms must be bigger in order for economic survival, it is also true that policies which stimulate inflation lead inexorably to fewer farms.

Yet another measure of the growth of large farms and the degree to which they have come to dominate American agriculture is the percentage of net farm income earned by each sales class (Table XVI).

In 1984, only 1.3 percent of the largest farms accounted for almost half the net income to agriculture, and the largest 14.5 percent accounted for over 100 percent of net farm income. By contrast, in 1969 the net income to agriculture was distributed among nearly 3 times that percentage of all farms.

The percentage of those with sales less than $20,000, which accounted for over 8 of every 10 farms in 1969, fell but still remained at nearly 60 percent in 1984. These operators are netting losses, however, and are now largely farming as a hobby or for the purpose of sheltering nonfarm income from taxation.

TABLE XVI.—PERCENTAGE OF FARMS AND PERCENTAGE OF NET FARM INCOME BY SALES CLASS, 1969 VERSUS 1984

[In percent]

Sales class	1969		1984	
	Farms	Income	Farms	Income
Over $500,000	0.1	16.2	1.3	49.5
$250,000 to $499,999	.4	7.0	3.3	23.6
$100,000 to $249,999	1.1	9.2	9.8	27.4
$40,000 to $99,999	5.2	23.0	15.2	8.0
$20,000 to $39,999	10.1	23.4	10.6	.4
$10,000 to $19,999	12.3	14.5	11.6	−1.5
$5,000 to $9,999	12.7	6.8	13.5	−1.8
$2,500 to $4,999	12.3	1.1	11.8	−2.3
Under $2,500	45.9	−1.2	22.9	−3.3
Over $100,000	1.6	32.5	14.5	100.5
Under $20,000	83.1	21.1	59.8	−8.9
$20,000 to $100,000	15.3	46.4	25.8	8.4

The $40,000 to $100,000 category tripled from 5.2 percent of all farms in 1969 to 15.2 percent in 1984, but their share of net farm income dropped by nearly two-thirds, from 23 percent to 8 percent.

The $20,000 to $40,000 sales category remained steady at just over 10 percent of all farms but suffered a dramatic drop to almost no net income. These farms too are in danger of becoming little more than tax-loss/hobby operations.

While farms in the latter two categories, with sales ranging from $20,000 to $100,000, account for only about one-fourth of all farms, they constitute nearly two-thirds of all "commercial" farms after the lower classes, those with negative returns from agriculture, are excluded. At current prices and yields, a 200 acre wheat farm would generate sales of about $20,000, and a 1,000 acre wheat farm would generate about $100,000—acreage levels which reflect quite well the bulk of the average operations.

Thus, it appears this is the group on which rural America must depend, to the extent that agriculturally dependent rural communities will continue to be viable at all, and, from a social perspective, this is the group toward which the bulk of government assistance efforts should be directed.

Overall real net farm income was down 31 percent in 1984 from 1969, but the upper three sales categories each had gains exceeding 100 percent (Table XVII).

TABLE XVII.—CHANGE IN REAL NET FARM INCOME PER SALES CLASS, 1969 VERSUS 1984

Sales class	Change (billions)	Percent change
Over $500,000	+7.19	+111
$250,000 to $499,999	+3.70	+132

TABLE XVII.—CHANGE IN REAL NET FARM INCOME PER SALES CLASS, 1969 VERSUS 1984—Continued

Sales class	Change (billions)	Percent change
$100,000 to $249,999	+3.87	+105
$40,000 to $99,999	−6.95	−76
$20,000 to $39,999	−9.23	−99
$10,000 to $19,999	−6.18	−107
Under $10,000	−4.69	−177
All farms	−12.29	−31
Over $100,000	+14.77	+114
Under $100,000	−27.05	−100

On the other hand, as a group, those with sales under $100,000 experienced a drop of 100 percent, to virtually no net farm income. The only category with both increased farm numbers (see Table XIV) and reduced real net income was that comprising those with sales between $40,000 and $100,000—another indication that this is the group toward which farm aid efforts should be addressed.

Finally, with respect to the distribution of farms among the sales classes, the recent comments of respected agricultural economist Neil Harl in testimony before the Joint Economic Committee are worth noting. Professor Harl said:

> The markets are sending clear signals that U.S. agriculture is utilizing too many resources. . . . If demand doesn't increase substantially, the only alternative to burgeoning surplus stocks is to decrease production. That means reducing the amount of land and capital devoted to agricultural production. *There's very little connection between the number of people in agriculture and the level of production.* Loss of 10 percent of the farmers would have very little impact on total production. (Italics added.)

Indeed, if a 10 percent reduction in farms were taken from the smallest operators, production would be cut by less than one-half of one percent, but as has been highlighted, most of these operators do not depend upon farming for their livelihood. They are in the business either as a hobby or for the purpose of sheltering nonfarm income from the tax collector. They are not likely to be driven out by economic stress.

Those who appear to be under the greatest strain as a group, and most likely to exit first, are those with sales from $20,000 to $100,000 and little nonfarm income. If the 10 percent reduction were taken from this group, the reduction in production would be about 8 percent, but by all accounts, these operators are those a benevolent policy would be best designed to aid. On the other hand, the loss of the largest 10 percent of all farms would cut production by a whopping 60 percent.

Table XVIII displays the percentage of national sales of agricultural commodities by nonfarm income/farm sales cell (assuming the average sales for each cell is the same as the average for its sales class).

TABLE XVIII.—PERCENTAGE OF NATIONAL SALES PER NONFARM INCOME/FARM SALES CELL

[In percent]

Sales class	Nonfarm income						Total
	Under $1,000	$1,000 to $5,000	$5,000 to $10,000	$10,000 to $15,000	$15,000 to $20,000	Over $20,000	
Over $250,000	30.1	7.2	3.5	2.8	2.0	3.3	48.8
$100,000 to $249,999	12.5	4.0	2.2	1.5	1.2	3.2	24.5
$40,000 to $99,999	7.3	2.6	1.9	1.2	0.8	2.2	16.1
$20,000 to $39,999	1.7	.7	.6	.5	.3	1.1	5.0
$10,000 to $19,999	.8	.3	.3	.3	.2	.9	2.8
$5,000 to $9,999	.3	.1	.2	.2	.2	.7	1.7
Under $5,000	.2	.0	.1	.1	.1	.5	1.2
Total	52.9	15.1	8.8	6.5	4.8	11.9	100.0

The implication drawn from Professor Harl's remarks is that driving people from the soil will not solve the problem of surplus production. Comparison of the percentages of operators (Table V) with the percentages of sales contained in this tabulation provides graphic proof the problem is not one of too many farms. That is not just because few of the farms produce most of the output, and these farms are among the least likely to go out of business, but also because the resources of those who exit are likely to be taken over by those who are even more productive.

If supply is to be brought into line with demand at a price more adequate for many operators now under stress, land and capital in agricultural production will have to be reduced, but it will be most unfortunate if this logic is used yet again to justify big payments to bribe big operators not to produce in hope of aiding the industry as a whole. That's a trap into which we've repeatedly fallen before, and it's a bottomless pit.

The Senate Budget Committee encapsulated the basic fallacy in national farm programs (S. Prt. 98–238):

> Because income policy and price stabilization policy are jointly conducted . . . the income distribution of commodity program benefits cannot be considered exclusive of the price stabilization mechanism. In order . . . to effectively control supply and thereby prices, large farms with their corresponding large production must be induced to participate. . . . Implicit in the need to attract large producers, however, is the corresponding (and generally accepted) need to distribute benefits according to output.

For the average farmer, it is a Catch-22 akin to the twisted logic of the Army field commander who contended, "We had to destroy the village in order to liberate it." Patrick Henry's famous self-sacrifical commitment, "Give me liberty or give me death," rallied the nation to independence and sounds good in theory yet today. In reality, though, of what use to the majority of farmers is the liberty of price stability won at the price of windfall gains to the larger operators, leading inevitably to the demise of the average-size and smaller farms, which by definition comprise the majority?

Need for Targeting

In opposing passage of the 1985 farm bill in the House of Representatives, the Reagan Administration argued that only 17 cents of every dollar of federal farm assistance has gone to those in the greatest financial need. Although policymakers have felt it necessary to provide assistance to those with no demonstrated need so as to allow some measure of assistance to trickle down to those under financial strain, experience has shown that is an expensive and ineffective policy at best. At worst, it has hastened the demise of the classes of average-size and smaller farmers in the long run as government has actually aided their take-over by larger operators.

Now, at a time when significant segments of the industry are suffering under a great burden of debt and many operators have little or no net income, is the worst of all times to continue, much less to increase, governmental efforts to provide untargeted aid to those who have no apparent need for it.

From the standpoint of the average American farmer and the rural community he supports, it matters little whether such efforts represent direct demands upon the taxpayers or whether they are of the variety said to have "no cost" because they do not impact upon the federal budget—except that, as has been pointed out, programs of the latter sort have no limit per operator and therefore benefit the larger operators even more disproportionately than production-based direct payments. Such purportedly no-cost or low-cost programs are all variations on the theme of production controls. Some examples are the producer-financed portion of the dairy diversion program, the dairy "whole herd buy-out" program, marketing orders and certificates, high nonrecourse loan rates, and various proposals for mandatory acreage cutbacks to be enforced on farmers by Uncle Sam.

To the extent any such program succeeds, not only do consumers pay the cost, but the benefits are distributed directly in proportion to the size of the farm. The rich get richer, and bigger, and the farms get fewer and farther between. The futility of unfocused efforts to raise the income of a target group of operators is apparent, and so too is the promise of a more focused approach.

Over half of all commodity sales are made by less than 12 percent of the commercial farm operators (Table XIX), those in the upper sales classes, who already have quite respectable incomes without aid and comprise less than 5 percent of all operators when those with sales under $20,000 are considered. Any farm aid approach based upon production—such as price supports and supply controls—will invariably deliver the bulk of the benefit to the large operators, leaving the remaining majority to share the smaller share of the gain.

TABLE XIX.—FARM INCOME, OPERATORS AND PERCENTAGE OF COMMERCIAL FARMS IN SALES CLASSES TARGETED FOR AID

Sales class	Gross cash farm income		Net farm income		Farms	
	(billion)	(percent)	(billion)	(percent)	(thousand)	(percent)
Over $500,000	$47.9	33.1	$13.2	45.5	31	3.3
$250,000 to $499,999	27.2	18.8	6.3	21.7	77	8.2
$100,000 to $249,999	37.4	25.8	7.3	25.2	229	24.4
$40,000 to $99,999	24.6	17.0	2.1	7.4	353	37.7
$20,000 to $39,999	7.6	5.3	.1	0.3	247	26.4
Total	144.7	100	29.1	100	937	100
Potential target groups:						
$20,000 to $249,999	69.6	48.1	9.6	32.9	829	88.5
$20,000 to $99,999	32.2	22.3	2.2	7.7	600	64.0

Excluding those with sales under $20,000, from 64 to 88 percent of all commercial farm operators fall into potential target groups. These groups have sales ranging from $20,000 to $100,000 or to $250,000, respectively, and they account for just 22 to 48 percent of farm sales. In other words, an unfocused, production-based approach to raising the net income of these operators means that from half to more than three-fourths of the aid goes to other operators.

Thus, CCC nonrecourse loans, dairy price supports, and production controls intended to artificially raise market prices, along with other such production-based programs, are from twice to nearly 5 times as costly as necessary to raise the income of the target group. Not even the harshest critic of the Pentagon would claim such a degree of waste, fraud and abuse in the Nation's defense program.

Moreover, for the average operator, receiving relatively small amounts of aid through production-based programs while watching the larger operators garner the real windfall is like walking up the down escalator. The faster it goes, the faster you go down. And the more money put into production-based farm aid, the faster the smaller farms disappear.

On the other hand, the good news is that an effective targeted income support program can be implemented for a fraction of the cost of an ineffective price support program. Better yet, the relative improvement in net income to the target groups will be a multiple of the gain in their gross receipts.

For example, based upon 1984 data, a 10 percent gain in cash income to the average farmer with sales of $40,000 to $100,000 translates into a 30 percent gain in net farm income. And for the average operator with sales from $20,000 to $40,000, a 10 percent gain in cash income means a gain in net income exceeding 200 percent.

If those increases in net income to these groups had been set as goals for the farm program in 1984, they could have been met at a cost of $2.7 billion versus the $9.2 billion actually spent.

These numbers give a very clear indication of the direction toward a solution, but with further regard to the problem, still more evidence is contained in USDA's *Economic Indicators of the Farm Sector: Farm Sector Review, 1984* (page 50), which points out

that only 56 percent of the farm land purchased in 1984 was financed with debt, compared to 62 percent just a year earlier.

Increased cash down payments made up the difference, and while that may only be prudent in light of the cash-flow problems facing many operators, the data clearly show both who has the cash and who is most aided by government subsidies to finance the purchase of farm land at falling prices from those who are less fortunate and less favored. It's analogous to buying a house with 44 percent down, except that the price of an average commercial farm is several times that of an average house and, at least for the larger operators and those having substantial nonfarm incomes against which to write off farm losses, the farm may be expected to pay for itself.

It should not be lost on policymakers nor in the policies they make that the combination of high income and increased government aid, compounded by the availability of credit at lower rates and the decline of farm asset values in general, can only serve as a stimulant to the trend of larger, well-off operators acquiring the assets of the smaller farms.

From the point of view of an economic purist and for those who place priority on achieving efficiencies of scale, that may be acceptable or even desirable, but from a socio-political perspective, it's not likely that's what taxpayers hope to buy with farm aid.

In these times of "farm crisis hysteria" fomented by news media portrayals of the difficulties faced by many farm families, it might be considered blasphemous even to suggest that some farm operators might have high income and no need for government aid. Nevertheless, the fact is that many farm operators are not in financial difficulty and neither need nor deserve taxpayer-financed assistance. Providing additional income to these operators through governmental efforts in the short run can only serve to aggravate the loss of other farming operations in the long run.

In addressing USDA's Agricultural Outlook Conference on December 3, 1985, the renowned agricultural economist Don Paarlberg said:

> . . . I dislike the word farm crisis. What we have is a very severe financial stress for a particular group of farmers. The notion that the whole of agriculture is in crisis is an idea being peddled by the farm lobby and picked up by the public and repeated by the media. The farm lobby has been quite successful in getting that notion accepted. That is not true . . . it is not a general farm crisis.

At the same conference USDA Assistant Secretary for Economics Robert Thompson said, "Targeting of benefits is the *only* approach which will address the problem of financial stress." The emphasis is his, but his conclusion is certainly supported by the evidence.

For too long, policymakers have concerned themselves only with overall income to the farm sector, without regard to who is benefiting and in what measure. It's much like dispensing morphine to the population at large because some of the people have a headache and others are dying. Everyone may feel better at first, but most who were terminal still pass on. Almost everyone who survives eventually gets hooked and wishes they had never taken the

cure to begin with. Some end up with headaches worse than ever, and others O.D. and die. Those who are lucky wake up in a stupor, and that is where American agriculture finds itself today, poised on the brink of a fateful choice—to take more of the poison or to take a less destructive, more curative course.

It has been argued that the farm program has benefited operators at all sales levels, but for the class of smaller operators, such benefits are minimal and transitory. They are a Trojan Horse, and the thought that all farmers have benefited is just another myth of the ilk of perpetual motion, money growing on trees, and the "free" lunch, of which there is no such thing. Someone must pay, and in this case it is more than just taxpayers and consumers; it is small farms as a class as well!

It is logically impossible that all farmers can benefit from policies so biased in favor of so few. It is possible and probably is true that most, if not all owners of farm assets have benefited somewhat in the short run, with the magnitude of the benefit being distributed roughly in proportion to size of the operation—the larger the farm, the greater the benefit. Over the longer term, however, the disproportionate benefits to the larger operators must begin to place the smaller farms at a greater disadvantage, and the problem is compounded for renters and prospective, "future" farmers who have not benefited from the capitalization of past subsidies and, in fact, are forced either to pay for them or forgo entering the business. It could not be otherwise unless the market for both farm production and inputs were unlimited.

Even if it were possible to concede that some smaller operators have benefited from the farm program in the long run, the best that could be said is that they are the current owners of farming assets at the time the subsidies were paid, and that tenant farmers and the prospective farmers have been further disadvantaged. It has become a truism that it is virtually impossible to get started in the business of farming without help, and that is little wonder in light of the policies of the past.

Former Secretary Bergland's structure of agriculture report put it this way (p. 143):

> . . . not all producers realize income benefits from appreciation in land values. Much of the land (about one-third) is owned by nonfarming landlords. Thus, much of the increased wealth . . . is not accruing to farmers but to individuals outside the farm sector. To the extent that farm policy benefits get capitalized into higher land values . . . the policies are inappropriate.
>
> The supply of land is limited, and its role in farming is unique. Simultaneously, it is a production input, a store of wealth, the ultimate repository of program benefits, and the biggest barrier to occupational entry. The concentration of landownership and the declining share controlled by farm operators are fundamental structural changes, and, therefore, are most serious.

As a class transcending the generation of current owners of farm land, there can be little doubt that average-size and smaller farming operations—along with the rural communities which rely upon

them for their existence—have suffered as a result of disproportionate subsidies to larger farms.

Better targeting of assistance is clearly required, not just to reduce needless spending and to get a meaningful level of support to those who need it, but just as importantly to eliminate unwitting complicity by the Federal Government in the demise of the family farm system and the rural communities for which it is the lifeblood. There is no other choice which is true to the cause of rural America.

A Self-Destructive Panacea

For the average American farmer, there is little good that can be said about the state of the agricultural economy, and no attempt should be made to gloss over the difficulties faced by many farm families. All but the demagogues and the ill-informed political opportunists looking to feather their own nests have recognized the laws of economics cannot be repealed. Overwhelming forces are reshaping the face of agriculture, and there is only so much government can do to resist those forces.

The challenge facing policymakers is twofold: 1) To do everything possible within the bounds of responsible economic and budgetary realities to aid the greatest number of farm facilities to remain productively employed in agriculture. 2) To resist the self-serving cries of the opportunistic special interests for short-term, politically expedient actions counterproductive to the best interests of farmers and the Nation in the long run.

Mandatory production controls have been ardently advocated by some as a panacea to the farm problem, and while that point of view has not previously prevailed among the responsible majority in agriculture, neither has it been relegated once and for all to its rightful place on the junkheap of farm policy fiascoes. Indeed, there is widespread agreement among farmers that production must be reduced, and some feel having Washington tell farmers exactly what to do and how much they'll be paid to do it is the only way.

Others agree with the old farmer whose wisdom is grounded in living through the farm policy failures of the past and whose cynicism is sparked by dread in watching the evolution of yet another disaster about to happen. The oldster was overheard to exclaim to his young friend, "If you think Uncle Sam has done such a great job of running agriculture so far, just wait till he gets mandatory production controls!"

The fact anyone in agriculture is willing to contemplate the thought of mandatory controls, dictatorially imposed upon farmers in their fields by bureaucrats in the great marble halls of the Nation's Capital, is perhaps more a sign of desperation and of politics than it is of ignorance. The situation is indeed desperate for many farm families, and many are grasping at straws—like the hope of higher prices through federally enforced production cutbacks.

According to the recent poll of wheat producers mandated by the 1985 farm bill, nearly 60 percent of all producers with more than 40 acres favor mandatory production cutbacks designed to achieve a market price of at least 125 percent of the national cost of pro-

duction. On the other hand, poll respondents favoring controls represent less than 11 percent of all producers of wheat. Thus, depending upon one's predetermined biases, the results may be used to argue for or against production controls.

Farmers are an independent lot, and they certainly have a right to have their say. When all is said and done, though, there are certain facts which should not be overlooked.

Making the factual case that mandatory controls are not in the best interest of the Nation, and certainly not in the interest of the average farmer or small town he supports, is easy. But it is the arena of politics, not facts, where the issue is decided, and that is where misinformation can be dangerous. So what are the facts?

In the first place, any truly effective federal production control program must be mandatory; otherwise it is a charade.

Politicians may talk all they want about giving farmers a choice, but in fact the choice they are offered is to give up their right to choose—to forfeit their freedom to manage their own affairs.

It has proven far too costly to bribe the largest operators, who account for most of the production but few of the farms, to "voluntarily" cut back enough to achieve significant price relief to the large majority of the average operators. That has been true in the "ordinary" times of the past, much less these days of heightened stress in rural America and Gramm-Rudman-Hollings budget cuts in Washington.

Voluntary production control is a contradiction in terms, and its purveyors are the modern-day snake oil dealers. Not only is it too costly, but "slippage" and the "free-rider" problem doom to ultimate failure even the most successful voluntary cutback program.

Slippage is the term given to the net result of the ability of many, particularly the larger operators to comply with the letter of the program while circumventing its spirit; that is, to qualify for program benefits without cutting back production as fully as intended.

Still more serious is the free-rider problem. Under a voluntary production cutback, those who benefit most are those who refuse to participate in it, those who produce all-out and thereby capitalize to the fullest on the price gains achieved through the sacrifice of their neighbor. Not only are there domestic free-riders—less than half of the farms are regularly enrolled in the program—but those who benefit most of all by our cutbacks are our foreign competitors.

Domestic and international "free-ridership" is an inevitable consequence of any voluntary effort to control production, but even under mandatory controls, there is no way for our government to force cutbacks elsewhere. Thus, forcing our farmers to give up sales rewards our foreign competitors with increased income. If not for the suffering it causes to farm families, it would be a laughable case of "cutting off our nose to spite our face." Considering the grievous harm to rural America, it's no joke. It's a painful lesson those who have been paying attention should have learned before.

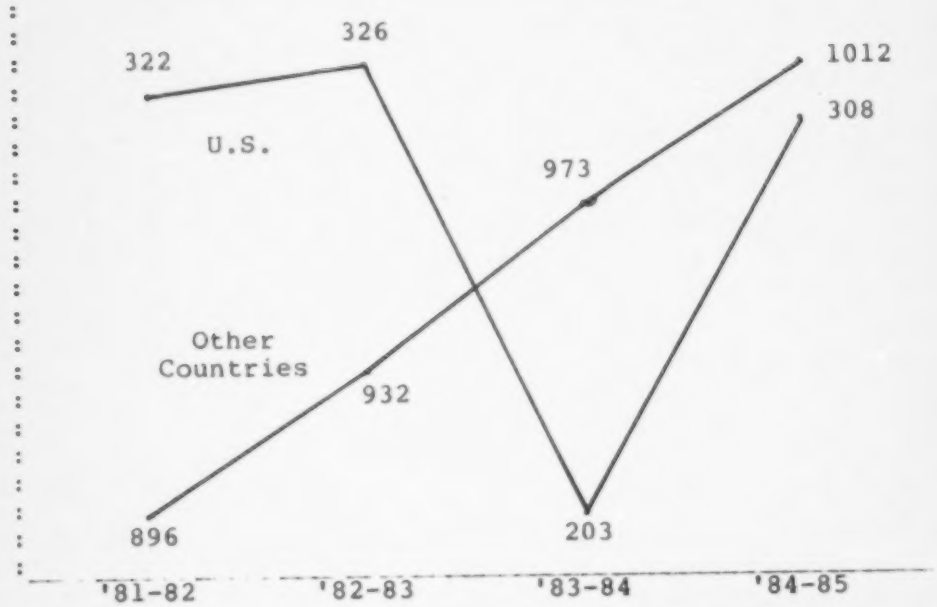
For proof of what happens to those who fail to meet the competition head-on, one need look no further than a long list of American industries, including automobiles, steel, textiles, and electronics, just to name a few. Untold numbers of U.S. jobs have been lost due

to misguided efforts aimed at denying the economic realities of the marketplace.

Lest anyone doubts that it could happen to agriculture, it already has, as demonstrated in the graphic comparison of U.S. and foreign production of wheat and coarse grains before, during and after the Production in Kind (PIK) program.

WHEAT AND COARSE GRAIN PRODUCTION, U.S. VERSUS OTHER COUNTRIES

[Million metric tons]



U.S. production dropped dramatically during PIK, by about one-third or around one hundred million metric tons. There were horror stories about multi-million dollar payments to individual farmers and even to corporate farms. A report in the Washington Post, for example, told of one farmer twenty million dollars in debt who is counting on the continuing largess of Uncle Sam to help him keep together the assets he has acquired from smaller operators.

Still, PIK showed that if cost is no object and huge payments to individuals and corporations are acceptable, it is possible to bribe farmers to cut production.

Unfortunately, as this graph shows, our cutback was offset by increased production in the rest of the world, and in the respect there is great irony in the ill-advised attempt at humor made some months ago by President Reagan. Farmers and their representatives in Congress were outraged when the President jokingly suggested America should "keep its grain and export its farmers."

In fact we already have. Not only have we embarked upon a government storage program unparalleled in any other nation, but the market share we are inevitably relinquishing through our unilater-

al cutbacks will be gobbled up with glee by our foreign competitors. Thus, we are indeed "keeping our grain" and "exporting our farmers."

As a measure of the magnitude of this phenomenon, the reduction in U.S. production encouraged by PIK is equivalent to the total output of more than one hundred thousand average American farms, and our foreign competitors proved ready, willing and able to step into their place. Granted, PIK operated for only a limited time, but the experts seem to agree the chance of production cutbacks in other nations are slim now that the investments have been made to achieve the increase.

Still more ironic is the fact some of the President's worst farm policy critics are the very ones espousing the mandatory U.S. cutbacks, which would lead to the export of even more of our farm employment opportunities, as a long-term solution to the financial strains in the industry.

Apart from the export of U.S. farm jobs, what are the implications of mandatory production controls among those who remain? Assuming foreign free-riders could be ignored, slippage could be wiped out by roving federal enforcers, increased imports could be blocked, the loss of exports could be tolerated, market prices would rise as much as suggested, and farmers were willing to relegate themselves to servitude to the Big Brother dictates of the state, who would benefit and in what measure from the imposition of mandatory production controls?

Table XX shows the average 1984 net farm cash income per operator by sales class, along with the potential subsidy gain associated with a production control program designed roughly to double commodity prices while cutting production 35 percent. Under legislation proposed along these parameters, to the extent prices may not rise enough to provide sufficient consumer-financed subsidies, the balance would be paid by taxpayers.

TABLE XX.—AVERAGE NET FARM CASH INCOME AND PRICE SUPPORT GAIN

[In thousands of dollars]

Sales class	Net cash income	Subsidy gain
Over $500,000	$411.9	$232.2
$250,000 to $499,999	71.2	53.5
$100,000 to $249,999	24.2	24.7
$40,000 to $99,999	.1	10.6
$20,000 to $39,999	−4.3	4.7
Under $20,000	−6.4	.9
All classes	5.9	10.0

Based upon 1984 aggregate average operating expenses per sales class, the average farmer in the $40,000 to $100,000 sales class could experience a gain in net income approaching $11,000. The net income of those with sales between $100,000 and $250,000 could double, but those with sales under $20,000 theoretically would experience the greatest proportional gains because their expense-to-income ratio is highest, on the order of $2 of expenses for every dollar of income. Therefore, they would profit not only from the

improved support price, but even more from the reduction in production costs. In effect, Uncle Sam would be forcing these operators to lose less money in farming.

Since these theoretical gains assume operator expense savings based upon total aggregate average costs per sales class, they should be considered descriptive, for general comparative purposes only, rather than hard estimates of the actual likely results. In actuality, due to fixed costs which cannot be avoided, it is unlikely operators would be able to achieve marginal cost savings equal to the average production cost for their class, so the potential gain in net income is overstated.

Nevertheless, it is noteworthy that the larger operators would enjoy net income gains on the order of 20 times those experienced by the average operator. That is true even though they theoretically would be forced to cut back on profitable production, while for the average operator lost sales may be more than offset by production cost savings.

Table XXI displays the implications of production controls in terms of average 1984 gross income per sales class versus the potential subsidy, and the absolute magnitude of the subsidy differential among the sales classes becomes still more pronounced.

In this tabulation the subsidy is the added amount consumers and taxpayers would pay to a farmer in each class. The average subsidy to all farmers would be about $33,000, or more than the average American household makes. The largest farms, which have an average gross income exceeding $1,500,000 annually, would be subsidized to the tune of $768,800 each year. Again, that's more than 20 times as much as the average farmer would receive, and 50 times as much as a smaller farmer with sales of $31,000, for example.

Moreover, the potential subsidy to the biggest farms might be three times as much as the level of current program direct payments which is considered to be so scandalous that the General Accounting Office has been called in to investigate.

TABLE XXI.—AVERAGE GROSS INCOME AND POTENTIAL PRICE SUBSIDY PER FARM

[In thousands of dollars]

Sales class	Gross income	Subsidy
Over $500,000	$1,544	$768.8
$250,000 to $499,999	353	177.0
$100,000 to $249,999	163	81.7
$40,000 to $99,999	70	34.9
$20,000 to $39,999	31	15.5
Under $20,000	6	3.1
All classes	66	33.0

Perhaps such gross inequities could be tolerated if they were isolated instances, but they would be the rule rather than the exception. Most of the subsidies would go to a few of the largest farms, and apart from the dictatorial nature of the proposal, it is in recognizing the full effect on the industry as a whole that a basic flaw in the concept is apparent.

The percentage of farms in each sales class versus the percentage of subsidies received under mandatory controls is a measure of the fairness of the program. Table XXII displays those figures.

Under a mandatory control program, half of the subsidies go to just 4.6 percent of the farms. Nearly three-fourths go to just 14.5 percent, leaving the remaining 85 percent majority of all farmers to share just a quarter of the gain.

Such disproportionate distribution of benefits is inevitable in any untargeted farm aid program, but what does that mean? In addition to tremendous needless cost and waste of the consumer and taxpayer's money, it means the larger farms are given a still greater advantage, a truly massive windfall, over the average and smaller operators than they enjoy without the program.

TABLE XXII.—DISTRIBUTION OF FARMS AND PRICE SUBSIDIES BY SALES CLASS

[In percent]

Sales class	Percent of farms	Percent of gain
Over $500,000	1.3	31.2
$250,000 to $499,999	3.3	17.7
$100,000 to $249,999	9.8	24.4
$40,000 to $99,999	15.2	16.0
$20,000 to $39,999	10.6	5.0
Under $20,000	59.8	5.6

And how great is the cost? Table XXIII displays a total direct cost of nearly $77 billion if a production control program involving these parameters were applied as general policy throughout the agricultural industry.

Of the total, more than $56 billion would go to the larger operators. These are direct costs alone. Since farmers receive only about one-third of the consumer dollar on average, the full, true cost would be even greater—as much as three times greater if middlemen maintained their current percentage margins. Moreover, the full cost to the nation would be still greater in terms of lost exports, jobs destroyed, and diminished economic activity.

As if these figures do not speak loudly enough for themselves, further indiction of the degree to which smaller operators would be disadvantaged is provided in the number of average farms which could be purchased by larger operators with subsidies from untargeted price supports.

TABLE XXIII.—COST OF PRODUCTION CONTROLS AND DISTRIBUTION OF BENEFITS

[In billions of dollars]

Sales class	Price subsidy
Over $500,000	$24.0
$250,000 to $499,999	13.6
$100,000 to $249,999	18.7
$40,000 to $99,999	12.3
$20,000 to $39,999	3.8
Under $20,000	4.3
All classes	$76.9

TABLE XXIII.—COST OF PRODUCTION CONTROLS AND DISTRIBUTION OF BENEFITS—Continued

[In billions of dollars]

Sales class	Price subsidy
Over $100,000	$56.4

Table XXIV shows the average net worth of operators in each sales class, the aggregate net gain to each class from a program to achieve a price increase on this order of magnitude, and, finally, the number of averaged-sized farms which could be purchased each year with the gain.

As in the previous tabulations, a 35 percent production cutback is assumed, along with a doubling of commodity prices. But USDA has estimated that even a 50 percent cut in wheat acreage, for example, would be insufficient to achieve a doubling of the price, so it is likely taxpayers would end up paying a large share of the cost of the program.

Regardless of who pays the cost, however, altogether the income transfer from taxpayers and consumers to producers would be sufficient to fund completely the purchase of all of the equity in more than 100,000 average-sized farms each year.

TABLE XXIV.—PRICE SUBSIDY FARM BUY-OUT POTENTIAL

Sales class	Equity per farm (thousands)	Subsidy gain to class (billions)	Farm buy-out potential (thousands)
Over $500,000	$1,443	$7.25	32.069
$250,000 to $499,999	675	4.12	18.203
$100,000 to $249,999	425	5.66	25.032
$40,000 to $99,999	278	3.73	16.473
$20,000 to $39,999	201	1.16	5.115
Under $20,000	133	1.31	5.799
All classes	226	23.22	102.690
Over $100,000	576	17.03	75.303

The subsidy to the 14.6 percent of all farms with sales exceeding $100,000 annually—most of whom are already quite profitable and are well positioned to acquire the assets of other operators—would be adequate to fund fully the purchase of more than 75,000 average operations. That's 75,000 farms for each year the program operates. At that rate, all 353,000 of the average-sized farms (with sales between $40,000 and $100,000) could be bought out by the larger operators in less than 4 years!

Perhaps that has been contemplated by the proponents of mandatory production controls because the fact is, far fewer farms will be needed under their proposals.

As much as 60 percent of our wheat and 40 percent of our corn production has been exported in some years, all of which may eventually be lost under mandatory controls. Moreover, unless imports could be blocked, domestic sales would suffer as well.

Even if lost sales were held to a minimum of 25 percent, that's equivalent to the entire production of all of our farms with sales

under $100,000 annually. That's over 85 percent of all of our farms, or a total of nearly two million farms.

Of course, the proponents of high price supports and production controls will argue they do not propose to extend the policy to all of agriculture, but why not? If it makes sense for some commodities, why not for all? The question begs itself—because the "solution" is itself the problem. In other words, production controls are needed for certain commodities and not for others precisely because high government price supports have stimulated surplus production of the supported commodities.

Would it not make more sense to let the market control supply, demand, and price? Then government could focus the resources of the taxpayers upon those deemed by Congress, as a matter of carefully considered public policy, to be in need and worthy of aid.

Regardless of which commodities are to be given the "benefit" of price supports and production controls, the issue of the distribution of benefits cannot be ignored. In short, production controls provide the cause for fewer farms, and price supports provide the means to achieve the reduction. The big farms gain increased revenues to buy out the average-size and smaller operations, and the residual demand after imposition of controls can be served by far fewer farms.

Perhaps that's an inevitable consequence of the economic forces reshaping agriculture. Indeed, based upon production and income data, it appears the full demand for U.S. farm commodities could be served by less than 400,000 of the largest farms. Still, very serious thought should be given to whether that is something the federal government ought to be encouraging through increased food prices. The near-term promise of higher farm commodity prices, so desperately needed by so many farm families, holds an allure some politicians may not be able to resist. When all the results are in, though, the old saying rings true in rural America: With friends like that, who needs enemies!

Quoting Secretary Bergland's "A Time to Choose" report once again (p. 143):

> . . . if a diverse farm sector is to be maintained, it is important policies recognize problems peculiar to specific groups of farms and address those problems directly. *The "broadside program" approach, perhaps more appropriate in the past, is doing more to concentrate production than it is to protect the farm sector.* (Italics added.)

Carefully targeted government assistance is the best and most effective means of aiding individual farm families in distress, but for the industry as a whole, there is simply no substitute for sales when it comes to profitability in agriculture. Empowering government bureaucrats to force farmers not to produce is a particularly self-destructive substitute.

A Better Way

While there are those, most notably the Reagan Administration, who argue federal farm subsidies should be phased out, both on budgetary and philosophical grounds, it seems likely that the pro-

gram will continue for foreseeable future. Indeed, even if it is true the program has hurt the average farmer and small communities more in the long run than it has helped, there are good reasons for continuing it for at least a transitional period.

Apart from compassion to those in need and fairness in allowing time to adapt to change, there is the fact producers of price-supported commodities have been encouraged to ignore market signals and dance to the tune called in Washington. The obvious truth of that fact hardly need be debated, but for one bit of statistical evidence, B.J. Morzuch, R.D. Weaver, and P.G. Helmberger have found, "Acreage allotments and marketing quotas appear to have destroyed the role of prices in allocating acreage. . . . ." ("Wheat Acreage Supply and Response Under Changing Farm Programs," *American Journal of Agricultural Economics,* February 1980.)

It will take time, as well as changes in policy, for farmers to reorient themselves to market realities. The farm program should highlight those realities to farmers and facilitate their abilities to meet market forces in the most efficient manner, while at the same time maintaining a more adequate and cost-effective economic safety net for the target group whose survival is sought.

Assuming there will continue to be a farm program of some kind, is it possible to restructure the program to do any real good for the average American farmer, and for future generations of America's farmers, at reasonable cost to the taxpayers?

From an economic and budgetary standpoint, proof of the fact the problem is not beyond relief is readily demonstrated. Consider a comparison of the actual average total net income received by operators in each sales class in 1984 to the potential income each class would have received if government aid had been allocated differently; that is, to provide each class an equal average total of nonfarm and government aid resources (Table XXV).

The actual average total net income received by all farm operators in 1984 was approximately $28,700. The average sum of nonfarm income and government aid per farm operator was about $21,100, and while the $20,000 to $40,000 sales class approached that figure in nonfarm income alone, no class exceeded it. Therefore, it is theoretically possible that government aid could have been used to eliminate the discrepancies between the classes in outside resources to sustain their farming operations.

Conceptually, without imposing undue financial hardship on any sales class, government aid funding in 1984 was adequate, if it had been allocated in this way, to provide significant benefit to the class in greatest need of improved income, that is, those with sales ranging from $40,000 to $100,000. Specifically, the net income of this class could have been raised from the lowest total net income of all classes (about $15,800) to an average of about $21,600—not enough to amass a fortune, but certainly adequate to help many farm families escape poverty and bankruptcy.

TABLE XXV.—1984 NET INCOME PER FARM OPERATOR AND POTENTIAL NET WITH GOVERNMENT AID REALLOCATED

[In thousands of dollars]

Sales class	Aid plus non-farm income	Actual total net income	Total net with aid reallocated
Over $500,000	$55.1	$440.8	$406.9
$250,000 to $499,999	33.7	93.3	80.8
$100,000 to $249,999	24.4	42.7	39.4
$40,000 to $99,999	15.4	15.8	21.6
$20,000 to $39,999	23.5	21.5	19.4
$10,000 to $19,999	18.7	16.3	18.7
$5,000 to $9,999	20.5	18.6	19.2
Under $5,000	20.5	18.6	19.2
Average	21.1	28.7	28.7

Obviously, those who lose the most under this allocation scheme are those who are benefiting the greatest from the current programs—those in the upper sales categories, who on average have net incomes well above those of the average American taxpayer who must foot the bill for farm subsidies. Interestingly enough, the $20,000 to $40,000 sales category also loses somewhat under this scheme, due to the relatively high average nonfarm income earned by this group. In general, those with sales under $100,000 gain, however, and the resulting distribution of income is much more regular than the distribution which actually occurred and was in fact aggravated, in absolute terms, by the malapportionment of government aid.

Operationally, the targeting of government income support aid to provide a more equitable distribution of net income among farm operators might be achieved through application of a formula based not only upon nonfarm income, but also farm sales. Under the formula, subject to certain maximum and minimum farm sales limitations, each operator would receive a supplemental income support payment from the government to ensure that he has an amount of nonfarm income and government aid equal to the average total of such resources available to his domestic competitors, all other U.S. farm operators.

The philosophical basis for a payment formula such as this is analogous to the argument which has been made for a "level playing field" in international trade: It is unrealistic to expect U.S. farmers to compete against the subsidies paid on exports by foreign treasuries, and it is likewise unfair to expect the average farmer with little or no opportunity for off-farm income to compete against farm operators who are wealthy in terms of farm sales or income from other sources.

As compared to the farm programs of the past, it would be considerably more equitable to allocate assistance on the basis of the lack of financial resources than on relative production levels, when higher sales are already associated with higher income. No one would think of giving most of the food stamps to the wealthy because the poor are hungry, but that is analogous to the effect of production-based farm aid proposals.

Offsetting each dollar of nonfarm income against a dollar of government aid would reduce the incentive for some operators and their spouses to work off the farm, but the same problem is encountered and has been tolerated in other federal assistance programs. The rate at which benefits are lost as income rises may be thought of as an effective tax rate on additional income. The easiest way to lessen the disincentive is to lower the effective tax rate, and in the case of a farm program of this sort, that could be done without overwhelming increases in cost.

The key to containing costs in the farm program is effective restraint on payments of larger-than-average-sized operations, which account for the bulk of production and where the potential for added subsidy cost is greatest. (Other public assistance programs are not so fortunate as to have funding for such surplus costs available to reallocate to the truly needy.)

On the other hand, it should be noted that job opportunities are limited in rural areas, and a job occupied by one farmer's wife may quite literally be a job denied to another. One way or another, in fairness to those who lack opportunities for outside income as well as to taxpayers who pay the bill, nonfarm income should be taken into account at least to some degree in determining farm program benefits. (For the purposes of Tables XXVI through XXIX, the effective tax rate is assumed to be 100 percent on nonfarm income.)

To preclude excessive payments to small farms and to help keep the cost within reason, the federal income support payment to any operator might be limited to an amount no greater than a certain percentage of his gross farm sales. On the other extreme, no payments at all would be made to those in sales classes (exceeding $250,000) which have high average net incomes without aid and have received a small proportion of their total income from such payments in any event. To avoid an inequitable threshold effect, payments could be phased down among those with sales above $100,000, to zero at the $250,000 sales level, by statistically crediting $1.00 to the nonfarm income of each operator for every $7.00 of farm sales over $100,000.

With a percent-of-sales limit in the range of 20 to 25 percent, based upon 1984 data, a significant improvement in the distribution of net income among the farm sales classes could be achieved through application of this formula at no increase in cost to the taxpayers.

The effect of the reallocation of aid upon the average net income per operator by sales class is shown in Table XXVI. This table takes into account the distribution of farm operators among nonfarm income categories. In addition to a $21,000 payment limit and a 7-for-1 aid phase-down for sales over $100,000, a 24 percent-of-sales limit is assumed. Therefore, these figures differ somewhat from those displayed in Table XXV, which is based upon the aggregate average nonfarm income for each sales class across all nonfarm income categories.

Appropriately, among the sales classes, it is those with sales ranging from $40,000 to $100,000 who benefit most significantly, with nearly a 40 percent increase in net income. Furthermore, within each sales class, operators who gain are those who might be considered needy because they lack other sources of income. That

fact is demonstrated most graphically by the increase in the $20,000 to $40,000 sales class, which showed a decrease when the distribution of nonfarm income within the class is not taken into account (Table XXV).

Some operators with sales between $100,000 and $250,000 would experience reductions under the phase-down of aid within that category. This group has an avarage net income around $30,000 without taxpayer-financed aid (Table VI), however, and would still receive an average of about $9,000 per operator (versus $13,700 in 1984), for an average total net income of nearly $40,000. Moreover, this sales class comprises less than 10 percent of all farm operators in any event. (See Table II). Over 85 percent of all farm operators sell less than $100,000 worth of farm commodities each year, and those lacking other means of support would benefit under this program.

TABLE XXVI.—AVERAGE NET INCOME AND PERCENT CHANGE WITH AID REALLOCATED

Sales class	Net income (thousands)	Change (percent)
Over $500,000	$400.3	−9.2
$250,000 to $499,999	71.1	−23.8
$100,000 to $249,999	38.1	−10.7
$40,000 to $99,999	21.8	38.2
$20,000 to $39,999	25.1	15.0
$10,000 to $19,999	18.0	10.4
$5,000 to $9,999	19.6	5.6
Under $5,000	19.0	2.4

A percent-of-sales limit at 24 percent caps payments to operators with sales below $87,500. The payment to operators with no nonfarm income and farm sales of $20,000, $50,000 and $87,500, for example, would be $4,800, $12,000 and $21,000, respectively. Compared to the actual average aid received in 1980 through 1984 by the classes containing these examples, these amounts are from double to several times greater. (See Table VII.)

Payments would peak and remain the level at $21,000 (less nonfarm income) to those with sales between $87,500 and $100,000, phasing down at higher sales levels. Thus, these operators would comprise the primary target group. For those with sales over $100,000, the 7-for-1 payment phase-down proviso would result in payments of $20,000, $11,000 and $1,000 for operators with no nonfarm income and farm sales of $107,000, $170,000 and $240,000, respectively.

Table XXVII approximates the distribution of aid among the various farm sales/nonfarm income cells on an average per operator basis to achieve the distribution of net income portrayed in Table XXVI.

TABLE XXVII.—AVERAGE AID PER NONFARM INCOME/FARM SALES CELL

[In thousands of dollars]

Sales class	Average sales	Nonfarm income						Average
		0.5	2.5	7.5	12.5	17.5	20.5	17.2
Over $250,000	694.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
$190,000 to $249,999	220.0	3.4	1.4	.0	.0	.0	.0	.0
$160,000 to $189,999	175.0	9.8	7.8	2.8	.0	.0	.0	.0
$130,000 to $159,999	145.0	14.1	12.1	7.1	2.1	.0	.0	.0
$115,000 to $129,999	122.5	17.3	15.3	10.3	5.3	.3	.0	.6
$100,000 to $114,999	107.5	19.4	17.4	12.4	7.4	2.4	.0	2.7
$40,000 to $99,999	69.7	16.7	16.7	13.5	8.5	3.5	.0	3.8
$20,000 to $39,999	30.9	7.4	7.4	7.4	7.4	3.5	.5	3.8
$10,000 to $19,999	15.7	3.8	3.8	3.8	3.8	3.5	.5	3.8
$5,000 to $9,999	8.3	2.0	2.0	2.0	2.0	2.0	.5	2.0
Under $5,000	2.3	.5	.5	.5	.5	.5	.5	.5
All classes	66.5	16.0	16.0	13.5	8.5	3.5	.5	3.8
Max out level	87.5	20.5	18.5	13.5	8.5	3.5	.5	3.8

The effect of targeting aid to those lacking adequate farm sales and nonfarm income resources is clearly evident. An operator at the average sales level ($66,500) with little nonfarm income would receive about 3 times as much as the average 1984 payment to those in his sales class. (See Table VI.) Of course, operators with higher levels of nonfarm income would receive proportionately smaller payments, but those with both average farm sales and average nonfarm income ($17,200) would receive roughly the same amount as under the 1984 program. Operators with average nonfarm income and less than average sales would receive significantly more than their 1984 class average.

The effect of the aid phase-down at the higher sales levels is seen by breaking the $100,000 to $250,000 sales class into subcategories. The average sales figures are either the actual class averages for 1984 or midpoint of the range, in the case of the $100,000 to $250,000 subcategories. The resulting, orderly distribution of payments is consistent with the concept of targeting benefits in a more cost-effective manner to do the greatest good for the greatest number.

Beyond the range of the primary target group ($87,500 to $100,000), operators with sales of $59,000 would receive approximately the same payment ($14,100) as those with sales of $145,000; operators with sales of $41,000 would receive roughly the same ($9,800) as those with sales of $175,000, and those with sales of $14,000 would receive the same ($3,400) as those with sales of $220,000.

The thought of such an egalitarian distribution of payments may come as a shock to the system of those who have become accustomed, or addicted, to production-based assistance. Nonetheless, a payment schedule along these lines is the obvious answer if the goal truly is to save the family farm system and, with it, the largest possible number of the farm families and rural communities it supports. Not only do aid proposals based solely on production fail to address forthrightly the goal of preserving the family farm system, but as has been shown, they work to undermine it.

Table XXVIII shows the dollar distribution of benefits, by nonfarm income/farm sales cell, which would have occurred under the payment allocation schedule portrayed in Table XXVII.

For the purposes of Tables XXVII, XXVIII and XXIX, the average nonfarm income of those with nonfarm income exceeding $20,000 has been arbitrarily set at $20,500, resulting in a maximum payment of $500 per operator in this nonfarm income class. The actual nonfarm income of most operators in this group is likely higher, so the cost of payments to them is probably overstated. The average for each of the other nonfarm income classes has been set at the midpoint of the range.

TABLE XXVIII.--DISTRIBUTION OF AID BY NONFARM INCOME/FARM SALES CELL

[Billion dollars]

Farm sales	Nonfarm income						Total
	Under $1,000	$1,000 to $5,000	$5,000 to $10,000	$10,000 to $15,000	$15,000 to $20,000	Over $20,000	
Over $250,000	0.00	0.00	0.00	0.00	0.00	0.00	0.00
$100,000 to $249,999	1.46	.45	.14	.04	.00	.00	2.09
$40,000 to $99,999	2.43	.86	.52	.22	.06	.02	4.12
$20,000 to $39,999	.64	.26	.22	.18	.06	.03	1.39
$10,000 to $19,999	.28	.09	.12	.09	.08	.05	.71
$5,000 to $9,999	.12	.05	.08	.07	.07	.06	.44
Under $5,000	.07	.03	.05	.05	.05	.17	.43
Total	5.00	1.75	1.14	.66	.32	.33	9.19

Table XXIX compares the actual percentage distribution of government aid, 1980 through 1984, to the distribution which would have prevailed under this allocation formula.

Under this allocation schedule 60 percent of the aid would go to those with sales from $20,000 to $100,000 versus 28 percent of total federal price support aid received by these classes in 1980 through 1984. None would go to the 4.6 percent of all farms in the highest sales classes, with sales over $250,000, who were recipients of nearly 40 percent of total price support aid in the first half of the eighties.

Generally, assistance to the lower sales classes would more than double, and within each sales class, aid would be targeted on those who are lacking in other income resources. The degree to which that is true is evident in Table XXVIII, in the totals for each nonfarm income class. Over 85 percent of the aid would go to those with nonfarm incomes under $10,000.

TABLE XXIX.—DISTRIBUTION OF AID BY SALES CLASS 1980–84 VERSUS POTENTIAL WITH AID REALLOCATED

[In percent]

Farm sales	1980–84	With aid reallocated
Over $250,000	38.5	0.0
$100,000 to $249,999	26.9	22.7
$40,000 to $99,999	21.2	44.9
$20,000 to $39,999	6.7	15.2

TABLE XXIX.—DISTRIBUTION OF AID BY SALES CLASS 1980–84 VERSUS POTENTIAL WITH AID REALLOCATED—Continued

[In percent]

Farm sales	1980–84	With aid reallocated
$10,000 to $19,999	3.3	7.7
Under $10,000	3.3	9.4
Total	100.0	100.0

While he did specify details and certainly did not endorse a needs-based program, as suggested here, even the Reagan Administration's previous farm policy architect, former Secretary John Block has gone on record in support of conversion to an income enhancement, as opposed to a price support program of farm aid. Quoted in the September 8, 1986, issue of Insight magazine (page 12), Mr. Block argued we should:

> . . . not . . . support the crops anymore because it's fouled up the whole agricultural industry. . . farmers who are used to support will receive some reasonable form of support; at the same time we'll no longer be controlling price. Within two years our acreage will adjust. We'll have the most competitive land in crop, and the marginal land will be out—for the right reasons, because market forces took it out, not because the government decided which acres should be planted and which should not.

The Political Will

There is little doubt a federal farm program of needs-based income support would vastly improve the distribution of benefits and would measurably improve the distribution of net income among operators. In addition, as argued by Mr. Block, it would tremendously increase the efficiency of the industry as a whole. Whether it could reverse or appreciably slow the loss of farms and the decline of rural communities is subject to question, but it surely could not hurt, as current and past assistance efforts have done. Considering the large amount of the taxpayers' money devoted to farm aid, surely, a lot of good could be done for a lot of farm families through a properly focused program. So why not try it?

It might be said a program of this sort is not really a farm program, but a rural incomes policy. That is purely a matter of semantics. How can it be said that giving lots of money to a few big farms who don't need it, so that they can get bigger, is somehow a "farm" program, whereas spreading aid around a little more equally to those who need it is not a "farm" program! If that makes this a "rural incomes" policy, then what is the current program—a "farmer reduction and surplus production" policy?

An economic purist might argue for continuation of a "cheap food" policy, facilitating the trend toward larger farming units and encouraging the exit of the smaller, "less efficient" operators. If that is indeed the goal, the farm program has worked quite well. The cost of food at the farm gate has never been lower anywhere

at any time in the history of mankind on earth, and there is little doubt the less efficient operators have been weeded out with a vengeance.

On the other hand, if the objective is to aid people instead of production in agriculture, thereby helping to preserve the family farm system and a rural way of life, there simply is no rational economic or social basis for maintaining the same old, tried and failed production-based programs of the past. But never have such policies been based upon such grounds. As always, such momentous decisions have been and will continue to be based upon political forces, and to the extent ignorance of the facts and complacency toward the results continue to prevail, so too will the powerful interests of the large operators and the opportunist politicians who parlay slick sounding slogans into votes.

It is a truism that politics makes strange bedfellows, but never has there been an odder couple than the rural politician unwittingly joining hands with the big farm operators to speed the demise of the family farming system.

In recent times it has virtually become accepted credo that the head of the Department of Agriculture must be a "bona fide dirt farmer," but it is difficult to imagine the nomination of an average-size or smaller full-time operator to become the Nation's First Farmer. Such an individual would be considered to be lacking in drive and ambition, probably even a failure, as well he might be under current policies. And while farmers have come to Washington in droves in recent years, it just doesn't pay for an average-size operator to spend much time here. The cost quickly eats up any potential gain achievable through a production-based assistance program, and those who have lingered long here likely are not spending much time on the farm anymore—unless they are working as a hired hand for a larger operator. But the big farmers, for them farming the government has paid big dividends, and it will continue to be so as long as price and production decisions are dictated in Washington, rather in the marketplace and on the farm, where they should be decided.

Nevertheless, hope springs eternal. Where there is a will, there is a way. There definitely is a way and it is clear—a way to do much better by America's farmers and taxpayers, as well as for our small, rural towns.

It depends little upon who is Secretary of Agriculture or even who sits in the White House. What's required is an understanding of the misguided efforts of the past and a commitment to change, an understanding and a commitment not just among the majority of our elected officials in Washington but especially among farmers and rural Americans themselves. For in our democracy, under God, the people do indeed rule. Unfortunately, our farm policies themselves are ample evidence those who favor "cheap food" and fewer, "more efficient" farmers have carried the day. It is not so much that the system has failed the people as it is the people have failed the system. A cliche that may be, but is certainly true in the case of the family farm system. There is little doubt more farm families could be assisted to continue in their chosen profession, and that goal could be accomplished at less cost to the nation if the political will existed to do so.

Writing in the January 1986 issue of Contemporary Policy Issues, Elmer Learn put it this way:

> U.S. policymakers must ascertain how strongly the public values maintaining an agricultural production sector populated by a relatively large number of moderate-sized production units. Maintaining such a sector requires devising a program of *income support* which targets that population . . . current policies provide inadequate protection for mid-sized farms. *Existing policies* benefit larger farms to an excessive degree and are *self-defeating* in the long run . . . (emphasis added)
>
> . . . the U.S. and its agricultural interests have been ill-served during the past 10 years because policymakers have failed to make major changes.

Assuming they are still in the majority, it is high time those who truly are interested in rural America and preservation of the family farm system stand up and be counted. Ill-fashioned production-based farm aid programs must be supplanted by people-aid programs placing a premium on people and families, rather than production, in agriculture. It can be done. The principle is sound. We should not get hung up on the details—which can be worked out in any number of ways—nor should we let the naysayers confuse the issue.

We truly can do more for less for America's farm families. The question is political, not economic or social. The question is whether we have the political will.

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